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**An Approach towards Japan's FTA Policy**

**Tatsushi Ogita**

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## **I. Introduction: Japan's Trade Policy at a Crossroads**

Japan's trade policy is currently at a crossroads. On 13 January 2002, Japan signed a free trade agreement (FTA) with Singapore, which was officially named "The Agreement between the Republic of Singapore and Japan for a New Age Economic Partnership" (新たな時代における経済上の連携に関する日本国とシンガポール共和国との間の協定), abbreviated as JSEPA. This was the first FTA for Japan to conclude, and until its conclusion, the country had been one of only four remaining non-FTA holders among the major economies in the world; the other three were Korea, China, and Taiwan (METI 2002: 3). In contrast, while the European Union (EU) has been advancing their long-time economic integration, the United States concluded the North American Free Trade Agreement (NAFTA) with neighboring nations Canada and Mexico, and even developing Southeast Asian countries closely connected with the Japanese economy established their own ASEAN Free Trade Area (AFTA). Yet Japan has erred from FTAs and regional trading arrangements (RTAs), exclusively advocating multilateral trade liberalization at the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO).

Since Japan has been such a long-time and sincere supporter of multilateralism, its policy change to have an FTA may be interesting and suggestive for the discussion on the relationship and consistency between FTAs and multilateral trade liberalization, and on how the former can contribute to and promote the latter. As a preparation for this discussion, this paper will:

- (1) review Japan's trade policy change in recent years with a focus on multilateralism and FTAs in the following Chapter II;
- (2) outline its first FTA, JSEPA, in Chapter III; and
- (3) tentatively evaluate them in the context of the relationship with WTO multilateralism, and set further research questions for a deepened discussion in the concluding chapter, Chapter IV.

## **II. The End of Multilateralism Supremacy:**

## Japan's Trade Policy Change in Recent Years

The end of “multilateralism supremacy” — supreme advocacy for Japan’s trade policy of multilateral trade liberalization — began in late 1998. Since then, the country had progressively become affirmative to FTAs and finally, after three years from embarkment, concluded its first FTA as mentioned earlier. The review in this chapter of Japan’s trade policy change in recent years is to mainly examine the country’s official policy statements as seen in the *White Papers on International Trade* (通商白書) that have been annually published by the Ministry of International Trade and Industry (MITI) and its successor, the Ministry of Economy, Trade and Industry (METI), as well as in the *Diplomatic Blue Books* (外交青書) published by the Ministry of Foreign Affairs (MOFA). Other fact-findings regarding such policy change are also to be made.

### II-1. Until 1998: “Multilateralism Supremacy”

The last issue of the *White Papers on International Trade* under multilateralism supremacy was the 1998 edition published in June of that year. This issue marked the 50<sup>th</sup> anniversary of the first *White Paper* in 1949, and ironically summarized Japan’s trade policy after World War II as “consistent and endless efforts to maintain free trade” (MITI 1998: 224).

According to the summary, the supreme task for trade policy in the first decade after the war was to promote exports for foreign currency reserves in order to import foods and industrial raw materials which were both necessary for maintaining the Japanese economy severely damaged by the war. It was also thus another prime aim to participate in the world trading system as soon as possible, to secure vitally important trade relations with foreign countries. Overcoming inveterate opposition from European countries, Japan finally joined GATT in 1955, but was still treated with discrimination under GATT Article XXXV.<sup>1</sup> This discrimination lasted until the 1960s (MITI 1998: 224-6), and it seemed to be the main reason for Japan’s long-standing wariness towards

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<sup>1</sup> For details on this discrimination against Japan, refer to Asakura and Fujikura (1996: 94-6) and Ikeda (1996: 83-102).

preferential/discriminatory regional trading arrangements, or RTAs. (Asakura and Matsumura 1999a: 71).

In the 1960s, as a newly industrialized country lacking raw materials, Japan naturally followed the worldwide trend of trade liberalization. The GATT Tokyo Round in the Seventies was the result of Japan's efforts to maintain a multilateral trading system against protectionism risen under the then world recession. After the 1980s, the first priority was continual deterrence of protectionist behaviours of unilateralism and discriminatory treatment of regionalism, by strengthening the disciplines through multilateral trade negotiations. To support and drive the GATT Uruguay Round in the late Eighties, Japan led the founding of the Asia-Pacific Economic Cooperation (APEC); a new-type, open regionalism consistent with GATT's foremost principle of non-discrimination (MITI 1998: 225-231). Additionally, in the Uruguay Round, Japan promoted the review of GATT Article XXIV to strictly regulate RTAs.

Under the current trade policy, *White Paper 1998* still put primary priority on the "steady implementation of WTO rules, and constant surveillance of and countermeasures for protectionist behaviours of foreign countries" (MITI 1998: 322). Regarding RTAs, the paper pointed out *only* their negative aspects as follows (MITI 1998: 142):

- The danger of discriminatory treatment through sophisticated techniques such as substantial tightening of rules of origin.
- The possibility of weakened efforts in the multilateral trading system caused by decreased dependence on extraregional economies.
- The danger of substantial increase of trade barriers when expanding the area coverage of an RTA.

As well as MITI's *White Paper*, the *Diplomatic Blue Book* published by MOFA in April 1998 still pointed out (MOFA 1998: 78, 88):

- the growing importance of sustaining and strengthening the multilateral free trade system;
- the danger of regional economic cooperation leading to segregation of the world economy into protectionist blocs, as well as supplementing the multilateral free trade system; and
- the necessity of closely watching whether regional economic cooperation promotes an expansion of open trade.

Munakata (2001: 86-9) explains the background of Japan's such policy position as follows:

- (i) The necessity of discriminatory regional economic integration was not recognized because East Asia, including Japan, had kept a high economic growth rate under a spontaneous “economic integration without agreements”, and a growth dynamism with no legal framework.
- (ii) Japan had only been a passive participant in the world trading system after World War II, concentrating upon its own economic restoration under the United States’ security umbrella, and having difficulties in liberalizing its trade in agricultural products—especially rice.
- (iii) Japan had avoided playing a leading role in regional framework formation in Asia due to the negative legacy of the war.

## **II-2. 1999: Hesitant Approach towards FTAs**

The outset to change Japan's conventional aforementioned trade policy was marked, in general, by the discussion at MITI's International Trade Policy Bureau in the second half of 1998 on regional economic integrations in the world and relevant policy options for Japan (Munakata 2001: 100). It rose and became concrete in an approach towards an FTA with Korea (JKFTA). In September 1998, in a discussion with Korean business leaders, the Japanese Ambassador to Korea mentioned the future prospect of forming an FTA between the two countries (Asakura and Matsumura 1999a: 70). This was soon succeeded by the following actions:

- |              |  |
|--------------|--|
| October 1998 | The Action Plans for a New Japan-Korea Partnership for the 21 <sup>st</sup> Century, as an appendage to the two leaders’ joint declaration, stated “strengthening economic cooperation between the two countries”. Japan tried to propose an FTA initiative but could not, being opposed by Korea which was wary of Japan’s economic domination ( <i>Nihon Kogyo Shimbun</i> , 10 October 1998). |
| November     | The two countries’ ministers discussed—when meeting at the APEC Ministerial Meeting in Malaysia—about a joint study for future enhancement of Japan-Korea economic relations, including the JKFTA initiative.  |
| December     | The joint study of the JKFTA was initiated by the 21 <sup>st</sup> Century Japan-Korea Economic Relations Study Committee, established by the Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) and the Korea Institute for International   |



Economic Policy (KIEP), which are both quasi-governmental research bodies.

March 1999 Both leaders jointly announced the Japan-Korea Economic Agenda 21 for further enhancement of economic relations between the two countries. Then Japanese Prime Minister Keizo Obuchi expressed in his speech at Korea University of his expectation that Japan and Korea would co-lead the formation of a free trade area in Asia in the 21<sup>st</sup> Century, which would measure up to that of the EU in scale.  
(Sakamoto 2000: 56).

In addition to the JKFTA, an FTA initiative with Mexico was proposed by President Ernesto Zedillo when he visited Japan in November 1998. After which, as well as in the case of the JKFTA, the academic Japan-Mexico Closer Economic Relations Committee was established in February 1999. Two months later, the non-governmental Japan Federation of Economic Organizations (*Keidanren*) published the “Report on the Possible Effects of a Japan-Mexico Free Trade Agreement on Japanese Industry” (METI 2001: 182, Keidanren 1999).

The *White Paper on International Trade 1999*, which was written during such a period of movements and published in May, expressed obvious change of stance towards FTA/RTAs in general, but showed a hesitance to Japan’s own FTA initiative. Although the 1999 issue still pointed out their possible harms in corroding the WTO and provoking economic blocs, contrary to the totally negative description about RTAs in the previous year, it also appreciated the positive aspects of complementing and improving the multilateral trading system (MITI 1999: 293-4) in that they:

- provide models of rule-making for multilateral fora including the WTO, in the domains which are not necessarily covered by the WTO and where single rule-making by many countries is difficult, through advanced rule-making in a region where socioeconomic situations are homogeneous.
- accumulate and enlarge the voices of plural countries into one, and are able to advance a multilateral negotiation stuck in deadlock.

The paper continued with the description about Japan’s policy dialogues, mainly with Asian economies in approaching bilateral and regional rule-making which complements and strengthens a multilateral system. However, it did not mention any FTA/RTA initiatives including the JKFTA.

On the other hand, the *Diplomatic Blue Book* published simultaneously with

the *White Paper* the same year seemed to remain relatively negative towards FTA/RTAs in general. It objectively stated that “regional economic cooperation to complement the multilateral trading system is necessary to be consistent with the principles of the WTO agreement and to be the driving force for open trade, not barriers to extraregional economies”. Japan’s efforts to discipline RTAs on the standpoint of strengthening the multilateral trading system is mentioned after this (MOFA 1999: 87).

### **II-3. 2000: True Embarkation on FTAs**

The year 2000 marked Japan’s true embarkation point on FTA policies. The joint study on an FTA initiative with Singapore — proposed by Prime Minister Goh Chok Tong in December 1999, and evolving into JSEPA, Japan’s first FTA — was conducted from March through September by a tri-sector group comprising of governmental officials, academics and business leaders from both countries, and was co-chaired by senior officials from the two governments.<sup>2</sup> This could in effect be regarded as the first official and actual action taken by the Japanese government towards concluding an FTA. Based on the report of this joint study, the two leaders in October jointly announced the start of the formal negotiations to conclude the JSEPA.

Regarding other FTA initiatives, non-governmental actions were continuously made in 2000. The IDE-KIEP joint study on the JKFTA published a report in May, stating that the JKFTA could bring some merit to both countries, although its realization would face several obstacles. In September, both leaders agreed to set up the JKFTA Business Forum to encourage public interest on the initiative in each of their countries. FTA initiatives with Mexico as noted earlier, a proposal with Chile in November 1999, and one with Australia proposed in October 2000, were also discussed on a non-governmental level (METI 2001: 182).

For the first time ever in this year, both MITI’s *White Paper* and MOFA’s *Blue*

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<sup>2</sup> Three of the five co-chairpersons were from the Japanese government: Director of Developing Economies Division, Economic Affairs Bureau, MOFA; Director of Regional Cooperation Division, Economic Cooperation Department, International Trade Policy Bureau, MITI; and Director, International Affairs and Research Division, Customs and Tariff Bureau, Ministry of Finance. The remaining two were from the Singaporean Ministry of Foreign Affairs and Ministry of Trade and Industry.

*Book* mentioned Japan's own FTA initiatives: namely the JKFTA, the JSEPA, one with Mexico and one with Chile (MITI 2000:119-22, MOFA 2000: 92-3).

The *White Paper 2000* explained RTAs much more than it had ever done before, and further developed a positive evaluation of them. Although the issue from the previous year still mentioned their potential harm in provoking economic blocs, the 2000 issue asserted that "negative effects of several existing RTAs to extraregional economies were limited even if they did exist," referring to an empirical analysis on the *static* effects of RTAs. Moreover, it emphasized the larger *dynamic* effects of market expansion and of competition promotion (MITI 2000: 105-8). After such general evaluation, it regarded Japan's RTAs to be consistent with the actual growing, economic interdependence in Asia, insisted on appreciating the economic merit of deepened integration beyond border-measure liberalization, and emphasized the importance in recognizing RTAs and economic structural reform, declaring that "we should regard RTAs as supplements to the multilateral trading system by the WTO" (MITI 2000: 122-3).

The *Blue Book 2000* mentioned RTA matters far less than did the *White Paper 2000*, but likewise to MITI, positively evaluated that "RTAs are, if consistent with the WTO agreement, not barriers to extraregional economies but the driving force for open trade, contributes to the expansion of world trade, and complements the multilateral trading system" (MOFA 2000: 92). It was the first time RTAs were appreciated as such by MOFA, and it occurred just a year after MITI.

In addition to governmental papers, the most influential business group, *Keidanren*, published in July an appeal entitled, "Urgent Call for Active Promotion of Free Trade Agreements: Toward a New Dimension in Trade Policy." (Keidanren 2000).

#### **II-4. 2001: Towards the Conclusion of the First FTA**

The year 2001 was the year when actual action was taken towards an FTA. Four formal negotiations to conclude the JSEPA were held: the first talks on January 31 to February 1 in Singapore, the second on April 24-7 in Tokyo, the third on September 3-5 in Singapore, and the fourth on October 10-12 in Tokyo. The negotiations, in which

ambassadors took charge as chief negotiator representing each of their governments, were supported by informal preparatory meetings on a Division Director level. Although a substantial conclusion was planned to be made in August (*Yomiuri Shimbun*, 23 June 2001), the negotiations finally “succeeded in concluding negotiations in all but a few issues” in October.<sup>3</sup> After which the negotiators jointly stated that “[t]he few remaining issues would be resolved before the two Prime Ministers meet in Shanghai [later in the same month for the APEC Leaders Meeting]. Both sides will then finalise the legal documents of the JESPA for signing by the end of the year”. In fact, as mentioned in Chapter I, the signing was postponed until the beginning of the following year partly because of the leaders’ diplomatic schedule changes following the 9-11 incident in the U.S..

Following the JSEPA, an FTA with Mexico came to the table on an intergovernmental level. Based on the leaders’ agreement in June, a tri-sector joint study group convened three times within 2001 (*Sankei Shimbun*, 12 December 2001). Meanwhile, the earliest initiated JKFTA had not been taken up in official negotiations, whereas the private Business Forum was established and held its first joint meeting in Seoul in September (Sohn and Yoon 2001: 29). At the November meeting, the Forum proposed a standing organization to promote the JKFTA initiative (*Sankei Shimbun*, 27 November 2001). For an FTA with Chile, study reports were individually published in each country in June; the Japanese report was by the quasi-governmental group JETRO (JETRO 2001), while the Chilean one was published by the Ministry of Foreign Affairs (DIRECON 2001). FTA initiatives with many economies such as Australia, Canada, New Zealand, Thailand, Taiwan, Brazil, and MERCOSUR were also continuously discussed or newly proposed.

The *White Paper on International Trade 2001*, which was published for the first time by the reorganized METI in May, succeeded and advanced the previous issue’s positive attitude towards RTAs. The last part of it, entitled “Eternal Economic Policy Challenges in the 21<sup>st</sup> Century”, described Japan’s desirable, multi-layered trade policy, and symbolically paralleled the subtitle of the entire issue itself. It articulated for the first time that the WTO multilateralism is *not enough* as (METI 2001: 173-5):

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<sup>3</sup> “Joint Statement for the 4<sup>th</sup> Formal Negotiations of the JSEPA”, downloaded from the METI website.

... due to the two major changes in the external environment ... — the increasingly cumbersome nature of WTO negotiations and moves by the other countries to form strategic FTAs — depending solely on the WTO is no longer a necessary and adequate condition in terms of the swift and certain achievement of the national target of domestic economic revitalization. Japan will instead need to develop its external economic policies through the flexible utilization of not only the WTO but also regional and bilateral fora for the following five reasons.

- (a) Expeditious development of new trade rules
- (b) Means of maintaining the multilateral liberalization momentum
- (c) Accumulation of international system-building experience and multilateral trade rule feedback
- (d) Avoiding the demerits of not forming FTAs and EPAs<sup>4</sup>
- (e) Domestic structural reform catalyst

It also seemed to be the first case where a *White Paper* named a *bilateral* fora as a desirable trade policy measure.

Although its description was more modest than that of METI's, MOFA's *Blue Book* also generally appreciated *bilateral* FTAs, and specifically the JSEPA, for the first time as follows (MOFA 2001: 96-7):

... there is a growing awareness of the importance of advancing inter-regional, intra-regional, and bilateral cooperation to supplement and strengthen the multilateral trading system. Regional trade agreements and bilateral free trade agreements that are consistent with the WTO Agreements do not function as barriers to third-party countries and other countries located outside of the regions concerned. Rather, such agreements promote open trade and contribute to the expansion of global trade overall.

The Japan-Singapore economic partnership agreement is also expected to supplement the multilateral trading system centered around the WTO because the trade liberalization within the region under this bilateral agreement will exceed the WTO levels and because the agreement will advance the preparation of rules governing areas that lie outside the range of the present WTO Agreements.

## **II-5. 2002: The Beginning of Japan's FTA Era**

The JSEPA, Japan's first FTA, was finally signed by the leaders in January 2002, and will be effective from the middle of the year. Moreover, simultaneously with the signing of the JSEPA, Prime Minister Junichiro Koizumi proposed the ASEAN member

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<sup>4</sup> The descriptions about the four reasons are not quoted here.

countries to conclude FTAs similar to the JSEPA with Japan. The proposal was to begin with expert discussions at the end of January, deciding product coverage and negotiation schedules, and to finally concluding an agreement within five to ten years (*Nihon Keizai Shimbun*, 7 January 2002).

### **III. The Beginning of Japan's FTA Era: The JSEPA**

The JSEPA marks the genuine beginning of Japan's FTA era. This may only be the first of some, if not many, FTAs Japan is going to conclude, but is currently the single available example of the country's realization of FTA policy. This can embody the policy, including the standpoint concerning the relationship between bilateralism/regionalism and multilateralism in trade liberalization, although only partially and not as a whole. This chapter first examines the backdrop of the conclusion of the JSEPA from the viewpoints of both Singapore and Japan, followed by a summary of some of the content and aspects of the JSEPA itself.

#### **III-1. Backgrounds**

As already been noted, the initiative which evolved into the JSEPA arose at the end of 1999. It is generally considered to have been from the Singaporean side, although some have said that Japan actually let Singapore propose an FTA. Japanese METI's Naoko Munakata wrote that maybe in the third quarter of 1999, Singapore signaled to Japanese politicians, bureaucrats and business persons of the possibility of a Japan-Singapore FTA, and in late October, was making up its mind to formally propose it to Japan. After that, in November, the Japanese government discussed the proposal, exchanging opinions with Singaporean officials and scholars (Munakata 2001: 105-7), and finally in December, welcomed Prime Minister Goh Chok Tong's official proposal.

Singapore's motives for concluding an FTA with Japan were simple and clear. For Singapore as a small urban state, a free and open trade environment was vitally important. Such economic security had been pursued by multilateral and regional efforts at the WTO, APEC and ASEAN. However, those conventional tools were not working

well in recent years: the GATT Uruguay Round was hard to conclude in the early 1990s, and the succeeding WTO new round experienced similar difficulty, even from its launching in the late Nineties into the new millenium; APEC lost its liberalization momentum towards the Bogor goal with the failure of the Early Voluntary Sectoral Liberalization (EVSL) initiative in 1998-9; and ASEAN's power was also weakened under the currency and economic crisis in the late Nineties. It became necessary for Singapore to diversify the tools for economic security by adding bilateral FTAs, and the JSEPA was one of them.

On the other hand, Japan's reason to choose Singapore as its first FTA partner seemed to be rather passive. Although Japan had already begun to change its trade policy in 1999 as mentioned in Chapter II, its first response to an FTA proposal with Singapore was negative for the following reasons (Munakata 2001: 106-7):

- Changing the multilateralism supremacy policy was not necessary and could arouse extraregional wariness towards an Asian trade bloc being made.
- The problem of trade liberalization in agricultural products would make a Japan-Singapore FTA inconsistent with WTO.
- There would be little to gain in an FTA with Singapore, a small and opened market. The only possible merit was that it would be a stepping stone for FTAs with other ASEAN members, but such ties would prove unrealistic because they were agricultural product exporting countries.
- An FTA solely with Singapore would alienate other ASEAN countries and deteriorate Japan's long-time effort in supporting the unity and coherence of the region.

In spite of such negativism, Japan decided to negotiate the JSEPA because if Japan was to conclude an FTA, Singapore was the most valid partner among all possible candidates for the following reasons:

- Singapore itself was eager to conclude an FTA with Japan, and unlike (South) Korea for example, had no difficulties in doing so since it was an opened, free-port state.
- Singapore had a far smaller agricultural sector than any other potential FTA partner.
- Singapore was an industrialized country able to negotiate and conclude an expanded FTA, or an economic partnership agreement (EPA), which targeted not only trade liberalization but also the freeflow of human, capital and information resources, and the facilitation, cooperation and promotion of innovation and competition.

### **III-2. Scope of the Liberalization of Trade in Goods**

Even in a modern FTA or EPA such as the JSEPA, the liberalization of trade in goods is still the most basic and important factor. This also tests most clearly its consistency with the WTO condition of eliminating all impediments to “substantially all trade”.

The JSEPA prescribes the elimination of custom duties in Article 14: Chapter 2, and articulates which products are to be eliminated in the Schedules in Annex I. The Schedules of the two countries are so-called *positive lists*. However, one such Singaporean list is in actuality not a *list* but literally just a sentence, saying that customs duties on all the products shall be eliminated from the date of entry upon the enforcement of this Agreement. Under this arrangement, tariffs on the four products (such as beer) imported to Singapore from Japan are to be newly eliminated.

On the other hand, the Schedule by Japan is a list of more than one hundred pages (in Japanese), which enumerates 6,938 products with indications of each of the six staging categories: A, B, C1, C2, C3, and D. Customs duties on the category-A products, which cover most products, shall be eliminated as of the date of entry into force. The category-B elimination date is 1 April 2006. Tariffs for C1, C2, C3, and D categories are to be incrementally eliminated by 1 January 2010, although their staging details differ.

The 6,938 products account for 79.6% of all the 9,023 products under the Harmonized Commodity Description and Coding System (HS) 9-digit basis. The tariff elimination on 3,087 of 6,938 products has already been committed at the WTO, therefore the other 3,851 products are newly committed in the JSEPA. Even these 3,851 products still include ones on which customs duties are effectively zero and ones on which customs duties are to be eliminated under the WTO commitment (MOFA, MOF and METI 2002). According to METI’s calculation, the JSEPA will augment the portion of Japan’s import from Singapore with no customs duties from 84% to 94%. Newly duty-eliminated products consist of manufactured goods such as chemicals, oil products and textile. Within manufactured goods, no tariff portion will expand from 88% to 98% (METI 2002: 15).

The Schedule by Japan includes 486 of 2,277 agricultural products. These 486



products consist of 428 on which customs duties have been eliminated under the WTO commitment, and 58 on which tariff rates are effectively zero (MOFA, MOF and METI 2002). Therefore, the JSEPA requests Japan no new tariff elimination on agricultural products, but satisfies the condition of not excluding an entire sector as a whole; one of the two generally recognized interpretations of WTO's "substantially all" condition mentioned earlier. The other interpretation of the 90% coverage of all trade can be automatically attributed because agricultural product exports from Singapore to Japan is tiny. Although Japan commits only minimum and easy liberalization concerning agricultural goods under the JSEPA, agriculturally-interested actors were told to oppose the inclusion of even the above-mentioned 58 agricultural products on which customs duties are effectively zero, because their inclusion deprives Japan of rights to increase tariffs on those products imported from Singapore.

### **III-3. Rules of Origin**

Rules of origin, which are related to trade in goods, are an essential part of an FTA, and indicate its openness/closeness. The JSEPA employs mainly the so-called *tariff jump* requirements and complementarily the *local content* requirements for its rules of origin (Article 23), which are detailed in Annex IIA.

The tariff jump requirements are conditions for being considered as goods to which sufficient transformation has been carried out in an FTA-contracting country, and are set at the HS 4-digit basis in the JSEPA. Fewer digits means more strict rules of origin because products must jump across further different tariff classification, by undergoing further processing and bigger changes. The JSEPA's 4-digit basis is regarded relatively strict. Its local content requirements, 60%, can also be regarded as being at the higher (strict) end of the stick of common FTAs.

There are no articles for incremental change (i.e., reduction of strictness) of rules of origin in the JSEPA, although the Joint Committee of Rules of Origin can discuss about amendments (Article 34).

### III-4. Scope of the Agreement as a Whole

The most notable characteristic of the JSEPA is its wide scope. The JSEPA consists of a Preamble, 22 chapters and several Annexes, and 19 out of 22 chapters are categorized into “Liberalization and Facilitation” and “Economic Partnership Enhancement” domains (refer to **Table**).

**Table: The Outline of the JSEPA (Main text only)**

Chapter Number	Chapter Title	Article Included	Domain
---	Preamble	---	---
1	General Provisions	1-10	---
2	Trade in Goods	11-21	Liberalization and Facilitation
3	Rules of Origin	22-34	
4	Custom Procedures	35-39	
5	Paperless Trading	40-44	
6	Mutual Recognition	45-57	
7	Trade in Services	58-70	
8	Investment	71-89	
9	Movement of Natural Persons	90-95	
10	Intellectual Property	96-100	
11	Government Procurement	101-102	
12	Competition	103-105	
13	Financial Service Co-operation	106-111	
14	Information and Communications Technology	112-114	
15	Science and Technology	115-120	
16	Human Resource Development	121-125	
17	Trade and Investment Promotion	126-128	
18	Small and Medium Enterprises	129-132	
19	Broadcasting	133-135	
20	Tourism	136-138	
21	Dispute Avoidance and Settlement	139-148	---
22	Final Provisions	149-153	---

(Note) The Agreement has 13 Annexes other than the main text outlined above.

(Source) The JSEPA, METI (2002).

Even the liberalization and facilitation chapters alone can be seen to cover a wider range than traditional FTAs. The facilitation elements in Chapters 4-6 and 9-12 are relatively new but currently sufficient to complement liberalization or to make up

important parts of *liberalization* in a broad sense.

However, more characteristic of the JSEPA is the economic partnership enhancement domain, which makes the Agreement known not as an FTA but EPA, with an exaggerated attribution of being of the “new age”. Chapters 13-20 declare strengthening cooperation, exchanging and sharing information, promoting policy dialogue, and exchanging human resources in several areas. Articles in the chapters are simple in only indicating general directions, but current, concrete actions based on these directions were listed in the leaders’ joint statement when signing the JSEPA. Joint Committees are to be set up in the areas except for human resource development to provide momentum in those directions. The economic partnership enhancement aims at liberalizing domestic economic institutions or system in each country, and at harmonizing and developing them across the two countries.

#### **IV. Tentative Conclusion and Research Questions**

At present, it is not easy to discuss and evaluate Japan’s FTA policy in terms of promoting and complementing the WTO multilateral liberalization because its history is only that of a few years, and because Japan has only just concluded its first FTA. Therefore, the evaluation cannot help but be tentative and hypothetical, and further research questions can yet be set.

##### **IV-1. Evaluating from the Official Papers**

While the *White Paper on International Trade* finally expressed its recognition of the WTO’s insufficiency and the necessity for FTAs as mentioned, it still insisted that “[t]he first challenge in advancing Japan’s multi-layered external economic policy will be to ensure WTO consistency in concluding bilateral and regional agreement.” As conditions for the consistency, however, it simply recalled the well-known, traditional rules: liberalization of “substantially all” trades, a transitional period no longer than ten years, and the standstill (METI 2001: 183-4). This way of thinking is *no less* than GATT

Article XXIV, but is also *no more*, either.

The aforementioned reasons for utilizing FTAs do not include a strong will to strengthen the WTO multilateralism because (METI 2001: 174-5):

- “Expeditious development of new trade rules” is primarily regarded to complement the WTO in the sense of covering “issues for which WTO rules have yet to be formed” for “the needs of domestic industry and consumer”, not in terms of driving the WTO’s rule-making in new domains.
- The recognition of FTA/EPAs as a “means of maintaining the multilateral liberalization momentum” are not well explained nor necessitated. The exemplified effects of regional moves to accelerate multilateral trade negotiations are not necessarily derived from FTAs, but from open fora such as APEC that the *White Paper* itself cited.
- “Avoiding the demerits of not forming FTAs and EPAs” is genuinely for the national interest to “avert the damage to domestic industry suffered”. This is the logic for following other FTAs, hence it is illogical for Japan to *multilateralize* its own FTA unless other FTAs are *multilateralized*.
- To be a “Domestic structural reform catalyst” is the ultimate role of Japan’s FTAs in the “achievement of the national target of domestic economic revitalization”, which is not immediately related to multilateralism.

So far as the official *White Paper on International Trade* is concerned, as has been seen already, Japan’s FTA policy is not explicitly nor strongly directed to strengthen WTO multilateralism.

#### **IV-2. Evaluating from the Agreement**

It may be true that the JSEPA will bring Japan an “accumulation of international system-building experience”, and that its economic partnership enhancement parts, or “new age” parts, will bring about the effect of “multilateral trade rule feedback”.

However, as discussed in the previous chapter, the Agreement only meets the WTO conditions of “substantially all” trade liberalization and within a ten year transitional period. Its rules of origin are rather strict. No special apparatus to strengthen the WTO multilateralism can be seen.

#### **IV-3. Evaluating from Policy Intentions and Policy Making**

The genuine intention of Japan to change its trade policy fundamentals from WTO supremacy to FTA affirmation should be examined in interviews with policymakers. The question here is who the policymakers are.

This paper hypothesizes that the policy change was led by MITI/METI. This is natural in terms of the Ministry's usual position to play a substantial role in foreign economic/trade policy-making in the Japanese government. Regarding the relation with MOFA, MITI/METI's superiority can partly be proven by the fact that the policy change occurred in MITI's *White Paper on International Trade* one year prior to MOFA's *Diplomatic Blue Book*, as already pointed out. This should be investigated through interviews with both METI and MOFA, as well as with third parties.

As in the case of the APEC liberalization (Ogita 2001), however, MITI/METI's initiative towards FTAs should have faced opposition from the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the *norin-zoku* (agriculturally-interested politicians). MITI did not, could not, nor should not coordinate and adjust to all domestic interests before changing the trade policy direction. The agriculture-related opposition possibly hindered the JKFTA initiative and got the JSEPA to be concluded earlier. The JSEPA could be concluded the earliest among several FTA initiatives because, as given above, Singapore was an exceptional FTA partner in the sense that it is an urban state and has only a marginal agricultural sector. The roles and the opinions of the agriculture-related actors should be examined in interviews.

In considering the genuine intention of the policy change, it does not seem to be economic but rather politically, diplomatically and strategically oriented. Hypothetically, it could be in response to the following phenomena:

- Japan remained one of only a few non-FTA holders in the world, which meant that it did not have a strongly-tied economic ally when a new WTO round was approaching.
- The unforeseen isolation in the APEC Early Voluntary Sectoral Liberalization consultations in 1998 clarified that even Asian countries were not necessarily nor always Japan's effective allies.
- The rise of China (or the Three Chinas) suggested unfavorable possibilities of

the so-called “Japan passing”, or the formation of an East Asian economic coalition without Japan.

Such policy change, which includes the questions of FTA consistency with, and the intensification of the WTO system, should be considered with long-term and strategic viewpoints, and be determined under deliberate and effective political leadership.

In fact, however, such viewpoints and leadership have hardly been seen in the FTA policy-making in the Japanese government. Momentum to promote or a mechanism to ensure the complementary and strengthening relations between Japan’s FTAs and the WTO system cannot be found. What is most needed for that — in the case of Japan — is a policy-making system/culture under a deliberate and effective political leadership.

#### **IV-4. Theoretical Questions To Be Revisited**

This paper provides a tentative case study of Japan to discuss about the relationship and consistency between FTAs and the multilateralism of the WTO. For a further and in-depth discussion, the following theoretical questions should be revisited:

- Should FTAs substantially (not formally) contribute to and promote multilateral trade liberalization? Isn’t it natural that an FTA is somewhat closed to concentrate its benefits on the contracting countries?
- Do the WTO rules, which FTAs ought to be consistent with, ensure that FTAs contribute to and promote multilateral trade liberalization? What are those rules designed for?

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